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August 29, 2019

Sent via email/eFile

Mr. Lloyd Jacobs
General Manager
FortisBC Alternative Energy Services Inc.
10th Floor, 1111 West Georgia Street
Vancouver, BC V6E 4M3
FAES.Regulatory.Affairs@fortisbc.com

Re: FortisBC Alternative Energy Services Inc. – Application for Approval of the Fiscal 2019/2020 Cost of Service Rates for the Thermal Energy Service to Delta School District No. 37 – Project No. 1599013 – Final Order with Reasons for Decision

Dear Mr. Jacobs:

With respect to your May 10, 2019 filing regarding FortisBC Alternative Energy Services Inc.'s Application for Approval of the Fiscal 2019/2020 Cost of Service Rates for the Thermal Energy Service to Delta School District No. 37, enclosed please find British Columbia Utilities Commission Order G-205-19 with reasons for decision.

Sincerely,

Original signed by Ian Jarvis for:

Patrick Wruck
Commission Secretary

/aci
Enclosure

cc: nchrist@deltasd.bc.ca
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ORDER NUMBER
G-205-19

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Alternative Energy Services Inc.
Fiscal 2019/20 Application for Cost of Service Rate for the Thermal Energy Service
to Delta School District Number 37

BEFORE:
A. K. Fung, QC, Panel Chair
W. M. Everett, QC, Commissioner

August 29, 2019

ORDER

WHEREAS:

A. On May 10, 2019, pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act* (UCA), FortisBC Alternative Energy Services Inc. (FAES) applied to the British Columbia Utilities Commission (BCUC) for approval of the Fiscal 2019/20 Cost of Service (COS) rate (COS Rate) of $0.271 per kWh, effective July 1, 2019 (Application) based on FAES' Forecast Annual COS, including amortization of the District Deferral Account balance for thermal energy service provided by FAES to the Delta School District No. 37 (DSD);

B. By its Decision and accompanying Order G-84-19 dated April 16, 2019, the BCUC approved the switch from the market rate to the COS Rate for the thermal energy service to DSD, effective July 1, 2019. FAES was also directed to file an application, on or before May 31, 2019 with the BCUC for approval of the Fiscal 2019/20 Annual Cost of Service and COS Rate;

C. By Order G-115-19 dated May 29, 2019, the BCUC approved the Fiscal 2019/20 COS Rate on an interim basis, effective July 1, 2019, and established the regulatory timetable for the review of the Application, which included one round of information requests (IR), final argument from DSD and reply argument from FAES;

D. By Order G-155-19 dated July 12, 2019, the evidentiary record was reopened to allow for Panel IRs, responses to Panel IRs and for the parties to submit supplementary final and reply arguments regarding the responses to the Panel IRs; and

E. The BCUC has reviewed the Application, the evidence and arguments in the proceeding and considers approval is warranted, subject to the adjustments set out in the attached reasons for decision.

NOW THEREFORE pursuant to sections 59 to 61 of the UCA, for the reasons attached as Appendix A to this order, the BCUC orders as follows:

1. A COS Rate is approved, on a permanent basis, effective July 1, 2019, for the fiscal and contract year from July 1, 2019 to June 30, 2020, subject to the adjustments as outlined in the attached reasons for decision.

2. FAES is directed to:

    a. file as a compliance filing with the BCUC the financial schedules contained in Appendix A to the Application, updated for the impacts of the required adjustments to the Fiscal 2016/17 through Fiscal 2019/20 COS and COS Rate, as outlined in the attached reasons for decision, no later than 30 days from the date of this order;

    b. concurrently with the compliance filing, submit for BCUC approval its planned treatment of the differences between the interim and permanent Fiscal 2019/20 COS Rates and its calculation of the resulting refund/recovery. FAES must also provide a copy of that submission to DSD;

    c. file for endorsement tariff pages with the BCUC reflecting the permanent Fiscal 2019/20 COS Rate effective July 1, 2019, in compliance with the terms of this order within 30 days of the date of this order; and

    d. comply with all other directives in the reasons for decision attached as Appendix A to this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 29th day of August 2019.

BY ORDER

Original signed by:

A. K. Fung, QC
Commissioner

Attachment

FortisBC Alternative Energy Services Inc.

Application for Approval of the Fiscal 2019/20 Cost of Service Rate for the Thermal Energy Service to Delta School District No. 37

Reasons for Decision

August 29, 2019

Before:
A. K. Fung, QC, Panel Chair
W. M. Everett, QC, Commissioner

1.0 Background and Regulatory Process

On May 10, 2019, pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act* (UCA), FortisBC Alternative Energy Services Inc. (FAES) applied to the British Columbia Utilities Commission (BCUC) for approval, on an interim and permanent basis, of its Fiscal 2019/20 cost of service (COS) rate (COS Rate) of $0.271per kWh, effective July 1, 2019 (Application). The Fiscal 2019/20 COS Rate is based on a forecast annual COS of $1.692 million[1] for the thermal energy service provided by FAES to Delta School District No. 37 (DSD).

In the BCUC's Decision and accompanying order G-84-19 dated April 16, 2019, the BCUC had previously granted approval to FAES to charge a COS Rate for the thermal energy service to DSD, effective July 1, 2019, and directed FAES to file an application for approval of the Fiscal 2019/20 Annual Cost of Service and COS Rate on or before May 31, 2019.

By Order G-115-19 dated May 29, 2019, the BCUC approved the Fiscal 2019/20 COS Rate of $0.271 per kWh on an interim and refundable basis, effective July 1, 2019. The BCUC also established a regulatory timetable, which included one round of information requests (IR) and final and reply arguments from DSD and FAES, respectively. Subsequent to the submission of final and reply arguments, by Order G155-19 dated July 12, 2019, the evidentiary record was reopened to allow for Panel IRs, responses to Panel IRs and for DSD and FAES to submit supplementary final and reply arguments, respectively, regarding the responses to the Panel IRs.

2.0 The District Deferral Account

The rates and rate design for FAES' provision of thermal energy service to DSD's 19 sites are established by an Energy System Rate Development Agreement (RDA) and individual Energy System Service Agreements (ESSA) entered into between FAES (originally FortisBC Energy Inc.) and DSD. FAES and DSD negotiated an ESSA for each of the 19 sites and an overall RDA that pools the costs of providing service to each ESSA into a single rate. The RDA also provides for the establishment of the District Deferral Account (DDA), to capture variances between the Annual COS and the actual revenues collected, with the balance to be recovered in future rates.

Specifically, section 1.1(q) of the RDA states that the DDA "means the record of the cumulative difference between the Annual Cost of Service and revenues, including a provision for interest at the AFUDC [Allowance for Funds Used During Construction] rate." Section 1.1(d) (viii) of the RDA states that the Annual COS includes "the annual amount necessary to amortize the District Deferral Account balance, either credit or debit, over the remaining years in the Term or ten (10) years, whichever is longer."[2]

During this proceeding, only one contentious issue arose, which relates to the current method FAES uses to calculate the balances in the DDA.FAES currently uses the following method to calculate the balances in the DDA: [3]

+ Opening DDA balance
+ Gross Additions (Revenues – Annual Cost of Service)
+ Interest (Interest on Opening DDA Balance + half-year interest on Gross Additions)
<u>- Amortization (Interest on Opening DDA Balance + Principal Repayment)</u>
= Closing DDA Balance

[1] Exhibit B-4, p. 5.
[2] FAES 2018/2019 Revenue Requirements and Cost of Service Rates Application for the Thermal Energy Service to DSD Proceeding, Exhibit B-1, Appendix E, RDA Sections 1.1(d)(viii) and 1.1(q).
[3] Exhibit B-5, Panel IR 1.2.

To calculate the interest or carrying costs on the DDA balance, FAES multiplies the opening DDA balance plus half of the gross additions by FAES' AFUDC.[4]

However, for Fiscal 2016/17 and prior, with the exception of Fiscal 2013/14 being a fixed amount for the amortization, FAES used the following method to calculate the balances in the DDA:[5]

+ Opening DDA balance
+ Gross Additions (Revenues – Annual Cost of Service)
+ Interest (Interest on Opening DDA Balance + half-year interest on Gross Additions + half-year interest on Amortization expense)
- Amortization (Opening Balance divided by remaining years in Initial Term)
= Closing DDA Balance

To calculate the interest or carrying costs on the DDA balance, FAES multiplied the opening DDA balance plus half of the gross additions plus half of the amortization expense by FAES' AFUDC.[6]

FAES states that it did not retroactively apply its current method of calculating the DDA balances during that period because there are already BCUC approvals in place for the DDA balances up to Fiscal 2015/16. FAES states that it "recommends maintaining the balance as approved through 2016/17" and using its current method from Fiscal 2017/18 onwards. FAES further states that if the BCUC were to determine that FAES' current method should be retroactively applied, it would result in an increase to the DDA balance by $35,000 to the end of Fiscal 2018/19 (from $5.157 million to $5.192 million) and it would increase the DDA amortization expense for 2019/20 and onward by $4,000 annually (from $575,000 to $579,000).[7]

DSD's Position

In DSD's final argument, it submits that "FAES' calculation of the annual carrying costs on the DDA for any given year does not account for the contributions made by the DSD in that same year towards the DDA balance" and that "DSD's payments throughout the year towards the balance of the account (labeled as 'Amortization Expense' of $575,000) do not factor into the calculation of annual carrying costs."[8] DSD submits that FAES' calculation results in increased annual amortization payments of approximately $16,000 per year by DSD because the carrying costs are calculated as though DSD is making a single payment towards the DDA balance on December 31st when it is in fact making monthly payments throughout the year.[9]

DSD submits that the calculation of the carrying costs for the DDA should account for both increases and decreases to the DDA "as this approach is fairer to the DSD, is consistent with the RDA (which does not expressly specify how this calculation must be done) and is consistent with ordinary utility practice."[10]

[4] Exhibit B-5, Panel IR 1.2.
[5] Ibid., Panel IR 1.1.
[6] Ibid.
[7] Ibid., Panel IR 1.2.
[8] DSD Final Argument, pp. 2-3.
[9] Ibid., p. 3.
[10] Ibid.

FAES' Position

In response to DSD, FAES submits that "the payments made by the DSD will occur via the COS Rate, against actual thermal energy deliveries throughout the year, which are not equal. Further, the Annual Cost of Service also does not occur in equal measures throughout the year either. Therefore, collection of an even monthly DDA amortization amount via thermal energy rates would require setting different COS Rates for each month, which the RDA does not contemplate."[11]

FAES submits that the method FAES uses to calculate the DDA balances conforms to the terms of the RDA by using an annual calculation. FAES cites section 1.1(q) of the RDA which defines the DDA and section 1.1(d)(vii) of the RDA which defines the Annual COS as support for its method of using an annual calculation.[12] FAES submits that its current method results in the DDA balance reaching zero at the end of the initial term and the DDA amortization payments are stable for the entire period, all else being equal.[13] In FAES' view, its method is appropriate because it is "consistent with the RDA terms and appropriately addresses the difference between the recovery of the opening balance and associated interest versus the annual changes including mid-year interest."[14]

FAES further submits that FAES' calculation of the carrying costs for any given year includes "an indirect share of the impact of reductions to the [DDA] that occur in that same year. This is because, as per the RDA, amortization of the DDA forms part of the Annual Cost of Service. Also, according to the RDA, the DDA records the difference between the revenues and the cost of service such that the amortization in that year is included in the calculation of the balance. FAES then calculates the carrying charges as the opening balance plus half of the additions."[15]

BCUC Determination

The Panel agrees with FAES on the following points:

- the RDA stipulates an annual calculation for the Annual COS and DDA balance;
- neither the payments made by DSD nor the Annual COS will occur evenly throughout the year; and
- FAES' current method of calculating the DDA balance results in a zero DDA balance at the end of the initial term and the DDA amortization amounts are stable for the entire period, all else being equal.

However, the Panel does not agree with FAES that its current method conforms to the terms of the RDA. The RDA does not specify how the carrying costs on the DDA should be calculated. Section 1.1(q) of the RDA stipulates that the DDA includes a provision for interest at the AFUDC rate but does not specify how the interest should be calculated. FAES' calculation of the interest (i.e. the opening DDA balance plus half of the gross additions multiplied by FAES' AFUDC) does not, in the Panel's view, indicate that the annual amortization expense (or payment of the DDA) has been accounted for. The Panel agrees with DSD that this would result in carrying costs calculated as though DSD is making a single payment towards the DDA balance at the end of each fiscal year.

The Panel is not persuaded that collection of equal monthly payments from the DSD is necessary for FAES to incorporate the amortization amount in the carrying cost calculation. In the Panel's view, since the Annual COS

[11] FAES Reply Argument, p. 2.
[12] Ibid.
[13] Exhibit B-5, Panel IR 1.2.
[14] Ibid.
[15] FAES Reply Argument, p. 2.

will not occur evenly throughout the year, neither will the additions to the DDA, which are the difference between the Annual COS and revenues. Also, since FAES can calculate the half-year interest on the gross additions to the DDA, it should similarly be able to calculate the half-year interest on the amortization expense (or payment) of the DDA, which, like the additions, does not occur evenly throughout the year.

Sections 59 and 60 of the UCA provide the legislative guidance for rate setting. In particular, section 59(1) states that rates for service must not be unjust, unreasonable, unduly discriminatory or unduly preferential. It is under this mandate that the Panel considers the current treatment of FAES' calculation of interest on the DDA. **The Panel finds that interest calculated on the additions to the DDA should be treated in the same manner as interest calculated on deductions from the DDA.** This provides a symmetrical, just and reasonable treatment of interest charges. The Panel agrees with DSD's submission that the equal treatment approach is fairer to DSD and consistent with ordinary utility practice.

The Panel further notes that FAES' calculation of the interest in Fiscal 2016/17 and prior does factor in the annual amortization expense (i.e. the opening DDA balance plus half of the gross additions plus half of the amortization expense multiplied by FAES' AFUDC). Based on the evidence provided in the proceeding, the Panel sees no reason why the half-year interest on the amortization expense should not be included in the calculation of the carrying costs. Further, in the Panel's view, incorporating the half-year interest on the amortization expense in the carrying costs calculation would not impact the stability of the amortization amounts. The resulting amortization amounts, like FAES' current method, would similarly address the difference between the recovery of the opening balance and associated interest versus the annual changes including mid-year interest.

The Panel finds that the annual payments or amortization of the DDA should be included in the calculation of the DDA's annual carrying costs and that FAES' current method to calculate the DDA's annual carrying costs does not incorporate these payments. Therefore, the Panel directs FAES to recalculate the carrying costs of the DDA for Fiscal 2017/18 to Fiscal 2019/20, to include the half-year interest on the amortization expense, and to recalculate each of the amortization expense, COS and COS Rate respectively. For clarity, FAES is to calculate the carrying costs as: the opening DDA balance plus half of the gross additions plus half of the amortization expense multiplied by FAES' AFUDC. The annual amortization expense is to include an interest component and a principal repayment component necessary to achieve stable levelized annual amortization amounts that would amortize the DDA balance over the remaining term of the RDA in accordance with section 1.1(d)(viii) of the RDA.

The Panel recognizes that BCUC approvals are already in place for the DDA balances from Fiscal 2012/13 to Fiscal 2015/16, and **therefore directs FAES to only apply this new method for Fiscal 2016/17 and onwards until the end of the RDA term. As a result, FAES is directed to also recalculate the Fiscal 2016/17 amortization expense of the DDA using this new method and the resulting carrying costs, COS and COS Rate.**